

FREQUENTLY ASKED QUESTIONS (FAQ's) ABOUT FSA LAND CONTRACT GUARANTEE PILOT PROGRAM

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Here's some answers to Frequently Asked Questions (FAQs) about the new Farm Service Agency (FSA) Land Contract Guarantee pilot program in Oregon. Please remember that this is a pilot program, and some of the rules may change as FSA gains more experience in this pilot.

Q: How much paperwork is there for the seller?

A: Generally, the seller provides FSA a 'letter of interest' in the program, in which they acknowledge how the program works. Other than that, FSA works directly with the buyer to assist them in providing the information we need to make a decision.

Q: How do I apply?

A: Buyers should contact their local FSA office who will assist them in processing the seller's application for the guarantee. Generally, the buyer will need to provide the following items of information to FSA. Sometimes, more information may be needed:

- Application form
- 3 years of financial records and production history
- Cash flow projection
- Verification of off-farm employment and debt balances
- Description of the operation, farm experience
- Proposed land contract terms
- Credit report fee

Q: What kind of farm is eligible?

A: Any new purchase of farm or ranch land in Oregon, as long as the purchase price is the lesser of \$500,000 or the current market value.

Q: Can the farm be purchased from relatives?

A: Yes.

Q: Can the farm include buildings and a residence?

A: Yes.

Q: Are appraisals needed?

A: No. FSA will not be requiring a real estate appraisal. If the buyer wants an appraisal, they will need to hire it on their own.

Q: What buyers are eligible?

A: Generally, the buyer must be a beginning farmer or rancher who meets FSA's eligibility requirements for the regular FSA guarantee program, including being creditworthy and being family-sized. The buyer must also have materially participated in the business operations of a farm for at least 3 years. To be a beginning farmer, the buyer must not have operated a farm for more than 10 years and not own farmland over 30% of the average farm size in the county.

Q: Can the buyer be a partnership, corporation, trust, or LLC?

A: Yes.

Q: How much down payment is required?

A: The buyer must make at least a 5% cash down payment at closing. The down payment can be borrowed, as long as the farm being purchased on contract isn't collateral for that loan.

Q: How much does FSA guarantee?

A: This pilot program guarantees up to 2 years of payments and 2 years of real estate taxes and hazard insurance. Unlike other FSA guaranteed loans, FSA does not guarantee the entire land contract balance in case of loss. The prompt payment guarantee runs for 10 years.

Q: Are there any restrictions for interest rates or loan terms?

A: There is no minimum interest rate. However, the interest rate cannot be more than the rate charged on FSA's regular Farm Ownership loans plus 3%. For example, if a contract were closed in September, 2003, the maximum rate could be 8.25%. The contract must also be amortized for a minimum of 20 years with no balloon payments. Interest rates are published monthly at <http://www.fsa.usda.gov/dafl/rates.htm>

Q: Who keeps track of payments to make sure that they are made on time?

A: An escrow agent, like the trust departments of some financial institutions, will need to be picked to track the payments and remit them to the seller.

Q: What happens if a payment is missed or is late?

A: The escrow agent will notify FSA and the seller. It's up to the seller to make a written demand for payment to the buyer to enforce the contract. If the buyer doesn't pay in 30 days, the seller must notify FSA who will then promptly make the payment due through the escrow agent. This prompt payment guarantee also applies to missed property tax installments and insurance premiums on the building improvements.